C.D. Howe Institute

Annual Report 1988

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Report of the Chairman and President

Nineteen eighty-eight saw several major policy developments of great importance to the future of Canada. This was reflected in the C.D. Howe Institute's extensive program of research and publications in five key policy areas: international economic issues, domestic macroeconomic issues, tax and social policies, sectoral issues, and regional issues.

During the year, the Institute reached out to Canadians with a well-articulated program directed at fostering a broader understanding of these key policy areas as Canadians prepare to enter the 1990s. The Institute issued 18 publications covering such diverse subjects as the Uruguay Round of the GATT, the Canada-U.S. Free Trade Agreement, tax reform, social policy, agriculture, Japanese-Canadian relations, and industrial relations.

Four of these studies made a particularly important contribution to public understanding of the issues: *Tax Reform: Perspectives on the White Paper; Evaluating the Free Trade Deal: A Guided Tour through the Canada-U.S. Agreement; Nikka Kankei: Japanese-Canadian Relations, the Opportunities Ahead;* and *Focus on Follow-through*, the Institute's Policy Review and Outlook, 1988.

In 1989, as the federal government begins its renewed mandate, sound policymaking continues to be vital to the preservation and improvement of Canadians' economic and social well-being. With this in mind, in February the Institute released *Ottawa's Next Agenda*, Policy Review and Outlook, 1989. This latest edition of the Institute's successful annual series examines the federal government's record in implementing the agenda it set out in 1984, and focuses on the issues the government will have to address in its second term.

The importance of fiscal restraint for the health of the Canadian economy continues to be a key concern in 1989. In recognition of this theme, the Institute is launching a new *Fiscal Monitor* series that will examine tax and expenditure issues.

Several changes took place to the Institute's Board of Directors in 1988. Patricia Johnston, Peter Paul Saunders, and William P. Wilder retired, while Claude Castonguay, Gerald R. Heffernan, Earl H. Orser, and John D. McNeil were appointed to the Board. In addition, Grant L. Reuber stepped down as Chairman, having completed his two-year term. The Institute wishes to thank Mr. Reuber for his valuable contribution to and stewardship of the Institute's affairs over the years.

Jack M. MacLeod
Chairman

Maureen Farrow
President

An Independent Canadian Voice

The C.D. Howe Institute is Canada's leading independent voice on economic policy. It conducts research and publishes critiques of policy issues with the goal of offering choices for action by governments and the private sector. Through its committees, symposia, and members' programs, the Institute brings together leaders, experts, and interested individuals from many different fields to exchange views and to promote a better understanding of issues affecting the future of Canada and the international economic system.

The Institute encourages membership from business, labor unions, trade associations, and the professions. This diversity of viewpoints contributes to the Institute's research and to its stature as a major participant in Canadian public policy debates.

The Institute is a nonprofit, nonpartisan institution supported by its members, whose fees and financial contributions are deductible for tax purposes. While it accepts no core funding from government, the Institute maintains sound working relationships with public officials to encourage the exchange of views and information and to develop insight into the government decisionmaking process.

Some members of the Institute's Board of Directors: (standing, from left to right) Earl H. Orser, Grant L. Reuber, H.A. Hampson, Gerald R. Heffernan, William A. Dimma, E.P. Neufeld; (seated, from left to right) Richard G. Lipsey, Maureen Farrow, Jack M. MacLeod (Chairman)

Highlights of 1988

- In 1988, the Institute continued the intensive program of research and communications it established the year before. It released a total of 18 publications covering a diverse range of domestic policy issues — including tax reform and industrial relations — and international economic issues — including Canada-U.S. trade, agriculture, and the GATT.
- Three significant Institute studies, including the best-selling *Evaluating the Free Trade Deal*, by Richard G. Lipsey and Robert C. York, and a series of *Trade Monitors* examined the Canada-U.S. Free Trade Agreement, Canada's trade and investment relations with Japan, and world agricultural trade issues. A major conference in January explored adjustment strategies in a free trade environment. The Institute also published a major collection of studies on tax reform.
- The Institute continued to reach out to a broader range of Canadians. In 1988, economic staff spoke to scores of audiences and commented extensively on economic issues in newspaper articles and on television and radio programs. As well, the Institute broadened its activities in Western Canada and again offered a Policy Roundtable series in several western Canadian cities.
- A new program of Policy Dinners, featuring briefings by international experts, won praise from members and invited guests. These dinners will be held in different cities across the country.
- Thanks to the generous support of members, the Institute increased its annual funding by nearly 20 percent to $1.5 million. This increase will allow the Institute to enhance its research and members' programs in 1989.
- A major investment in computer technology in 1988 enabled the Institute to improve its capabilities in economic analysis and data handling and to increase the efficiency of its publications program through desktop publishing.
- The Institute was pleased to welcome two new staff members in 1988. Irene K. Ip, Senior Policy Analyst, has an excellent understanding of public policy and its relationship to financial markets and the economy. She has an M.A. (Economics) from the University of Toronto. William B.P. Robson, Policy Analyst, has an M.A. (International Affairs) from Carleton University, and brings to the Institute a sound understanding of the workings and measurement of the Canadian economy.

Members of the Institute's research team: (standing, from left to right) Edward A. Carmichael, Robert C. York, William B.P. Robson; (seated, from left to right) Irene K. Ip, Katie Macmillan

The Research Program

The research program represents the Institute's major contribution to policy debate in Canada. During 1988, it focused on the most pressing economic issues confronting the country: tax reform, deficit reduction, and the need for structural adjustments in the new free trade environment.

Fiscal Policy

The need to proceed with reform of Canada's tax system has become especially urgent in light of the Canada-U.S. Free Trade Agreement. In 1988, the Institute produced a major critique by six leading economists and tax experts of the federal government's proposals for tax reform. The study, *Tax Reform: Perspectives on the White Paper*, edited by Edward A. Carmichael, supported the government's decision but argued that the benefits might be lost if Canada does not proceed quickly with sales tax reform.

The Institute views Canada's continuing deficits as a major policy challenge with troubling implications for the future. In *Focus on Follow-through*, Policy Review and Outlook, 1988, authors Edward A. Carmichael and Katie Macmillan urged the federal government to renew its commitment to deficit reduction and other pressing national objectives.

In 1989, the Institute will launch a new series of publications entitled *Fiscal Monitor*, which will track taxation, the deficit, the federal budget, and related issues.

Trade Policy

The Institute has been in the forefront of discussions on Canadian-U.S. trade throughout its existence, and 1988 was no exception. Dr. Richard G. Lipsey, Senior Economic Advisor, and Robert C. York, Policy Analyst, contributed *Evaluating the Free Trade Deal: A Guided Tour through the Canada-U.S. Agreement*. This readable best-seller examined the elements of the Agreement in layman's language, and proved to be a valuable addition to the literature.

Issues of adjustment to free trade were explored in *Business Strategies and Free Trade*, a collection of studies from an Institute conference, edited by Institute President Maureen Farrow and Alan M. Rugman, Professor of Management Studies at the University of Toronto. Eight *Trade Monitors* were published in 1988, several of which examined issues relating to the Canada-U.S. Free Trade Agreement.

Agricultural trade, particularly the problem of subsidies, is a continuing theme of the Institute's research program. A *Trade Monitor* by J.C. Gilson assessed the state of world agricultural trade at the Midterm Review of the Uruguay Round of the GATT. In addition, the Institute copublished, with Washington-based Resources for the Future, *U.S.-Canadian Agricultural Trade Challenges*, the proceedings of a conference that explored issues in bilateral and global agricultural trade.

With the conclusion of the free trade debate, Canada will have to turn its attention to multilateral trade issues. The Institute thus will continue its long-standing exploration of agricultural trade and the GATT in the coming year.

Nilda Kankei

Japanese-Canadian Relations, The Opportunities Ahead

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H. Anthony Hampson

Publications in 1988

Golt, Sidney. *The GATT Negotiations, 1986–90: Origins, Issues and Prospects*, BNAC 36 (December 1988). ISBN 0-902594-48-6. 106 pp.; $15.00.

Gilson, J.C. *The GATT Midterm Review and Agriculture: Prospects for Trade Reform in the Uruguay Round*, Trade Monitor 9 (November 1988). ISSN 0836-0820; ISBN 0-88806-242-7. 12 pp.; $5.00.

Hampson, H. Anthony. *Nikka Kankei: Japanese-Canadian Relations, the Opportunities Ahead*, Observation 33 (November 1988). ISSN 0826-9947; ISBN 0-88806-244-3. 91 pp.; $10.00.

Lipsey, Richard G. *The Free Trade Deal and Canada's Sovereignty: Are the Fears Justified?*, Trade Monitor 8 (November 1988). ISSN 0836-0820; ISBN 0-88806-232-X. 12 pp.; $5.00.

Lipsey, Richard G. and York, Robert C. *The Free Trade Deal: Shall We Forsake the Bird in the Hand?*, Trade Monitor 7 (October 1988). ISSN 0836-0820; ISBN 0-88806-241-9. 8 pp.; $5.00.

Horlick, Gary N., Valentine, Debra A., and Steger, Debra P. *Two Views on Dispute Settlement and Trade Laws in the Canada-U.S. Free Trade Agreement*, Trade Monitor 6 (October 1988). ISSN 0836-0820; ISBN 0-88806-229-X. 12 pp., $5.00.

Lipsey, Richard G., and York, Robert C. *Evaluating the Free Trade Deal: A Guided Tour through the Canada-U.S. Agreement*, Policy Study 6 (July 1988). ISSN 0832-7912; ISBN 0-88806-228-1. 139 pp.; $14.95.

Allen, Kristen, and Macmillan, Katie (eds.). *U.S.-Canadian Agricultural Trade Challenges: Developing Common Approaches* (July 1988). ISBN 0-915707-44-6. 218 pp.; $15.00.

Farrow, Maureen. *The Toronto Economic Summit: Great Expectations Need to Be Tempered by Realism*, C.D. Howe Institute Commentary 16 (June 1988). ISSN 0824-8001; ISBN 0-88806-236-2. 8 pp.; $5.00.

British-North American Committee. *New Departures in Industrial Relations: Developments in the U.S., the U.K. and Canada*, BNAC Occasional Paper 5 (June 1988). ISBN 0-89068-092-2. 74 pp.; $10.00.

Farrow, Maureen, and Rugman, Alan A. (eds.) *Business Strategies and Free Trade: Focus on Corporate Adjustment*, Policy Study 5 (May 1988). ISSN 0832-7912; ISBN 0-88806-231-1. 99 pp.; $15.00.

Macmillan, Katie. *Women and Free Trade*, Trade Monitor 5 (May 1988). ISSN 0836-0820; ISBN 0-88806-230-3. 12 pp.; $5.00.

Carmichael, Edward A. *Energy and the Canada-U.S. Free Trade Agreement*, Trade Monitor 4 (May 1988). ISSN 0836-0820; ISBN 0-88806-227-3. 16 pp.; $5.00.

Safarian, A.E. *The Canada-U.S. Free Trade Agreement and Foreign Direct Investment*, Trade Monitor 3 (May 1988). ISSN 0836-0820; ISBN 0-88806-234-6. 16 pp.; $5.00.

Wonnacott, Paul. *The Canada-U.S. Free Trade Agreement and the Auto Pact*, Trade Monitor 2 (March 1988). ISSN 0836-0820; ISBN 0-88806-226-5. 12 pp.; $5.00.

Morici, Peter. *Meeting the Competitive Challenge: Canada and the United States in the Global Economy*, CAC 58 (March 1988). ISBN 0-89068-094-9. 61 pp.; $10.00.

Carmichael, Edward A. (ed.) *Tax Reform: Perspectives on the White Paper*, Policy Study 4 (February 1988). ISSN 0832-7912; ISBN 0-88806-177-3. 108 pp.; $15.00.

Carmichael, Edward A., and Macmillan, Katie. *Focus on Follow-through*, Policy Review and Outlook, 1988 (February 1988). ISSN 0826-9939; ISBN 0-88806-176-5. 104 pp.; $15.00.

Publications can be obtained from:

Prentice-Hall Canada Inc.,
1870 Birchmount Road, Scarborough,
Ontario M1P 2J7
or directly from the Institute.

The Institute at Work

Discussion and debate, as much as research and writing, shape the Institute's character. Throughout the day, the research staff are in contact with people from outside the Institute, fielding calls from journalists, exchanging information with economists in the private sector, or meeting with government officials and outside authors. Because much of their work is done on a collective basis, staff members also meet frequently among themselves to discuss ideas or projects.

Time is also devoted to members' activities and to preparing and giving presentations to legislative committees. Speaking programs, too, are an important priority, with policy staff traveling across Canada and to places as far afield as Europe, India, and Australia.

Supporting the work of the research staff is a core group of people with a range of specialized skills, and resources that include an extensive research library and computer capabilities for economic analysis and desktop publishing.

Librarians Susan Knapp and Marian Duncan maintain the Institute's collection of books, periodicals, and statistical reports, which is open to members and the public by appointment.

Barry Norris is the editing talent behind Institute publications, helping turn technical jargon into good, readable prose. He also coordinates the fundraising activities, which are critical to the Institute's continued success.

Responsibility for organizing the Institute's full roster of meetings falls to Krystyna Maksalon, who has helped to build this aspect of the Institute's work into a considerable asset.

Harold Corrigan brings his experience from the private sector to bear on fundraising and the Institute's business operations. And staff members Caroline Casas, Elaine Fitzpatrick, Nancy Howey, Brenda Palmer, and Julie Thompson provide administrative support and help to keep the Institute's sometimes frantic pace on an even keel.

So what is a day at the Institute like? Long, sometimes exciting, frequently demanding — and, for the most part, thoroughly enjoyable.

Dr. Richard G. Lipsey

Few Canadians have contributed as much to understanding of public policy issues as Dr. Richard G. Lipsey, the Institute's Senior Economic Advisor. It is with regret, therefore, that in 1989 the Institute will see Dr. Lipsey depart its full-time staff, although he will continue to be associated with the Institute as a Senior Fellow.

Dr. Lipsey launched the *Inflation Monitor* series and the highly successful *Trade Monitor* series, and has written and edited studies on a variety of economic topics while with the Institute. His major contribution, however, has been in trade issues. His major studies of free trade, *Taking the Initiative*, written in collaboration with Murray Smith and published in 1985, and *Evaluating the Free Trade Deal*, written with Robert York and published in 1988, are widely recognized as two of the most important contributions to the free trade discussion.

Dr. Richard G. Lipsey

The Committees

The standing committees have been at the heart of the Institute and its work since its formation. Composed of senior people from business, labor, agriculture, the professions, and academia, the committees provide a sounding board for the Institute's research and views. For members, the committees offer opportunities to meet with influential peers from Canada and abroad and to participate in important policy debates.

The British-North American Committee (BNAC)

It was a busy and eventful year for the BNAC. Members met at Bournemouth, England, in June to discuss issues as diverse as higher education, changing relations among the NATO countries, and international business strategies. Highlights of the December meeting in Palm Beach, Florida, included a lively debate on "merger mania" introduced by Roger Miller, Managing Director of Salomon Brothers, and a discussion of savings and global imbalances led by Dr. Thomas J. Courchene of Queen's University.

The Canadian-American Committee (CAC)

Discussions of the Free Trade Agreement highlighted meetings of the CAC, with addresses by U.S. Trade Ambassador Clayton Yeutter and former Canadian Ambassador and Deputy Chief Negotiator Gordon Ritchie. The CAC's spring meeting in Washington featured a discussion on the acid rain problem by James Bradley, Ontario Minister of the Environment, and U.S. Senator George J. Mitchell.

The agenda of the fall meeting in Toronto included presentations by John Crow, Governor of the Bank of Canada, Nobel laureate Dr. John Polanyi, and U.S. scholar Dr. Seymour Martin Lipset, who spoke on cultural differences between the two countries. Members attending the two meetings were treated to receptions hosted by Allan Gotlieb, Canada's Ambassador to the United States, and Thomas Niles, U.S. Ambassador to Canada.

The C.D. Howe Institute Policy Analysis Committee (HIPAC)

Presentations by national and international experts highlighted HIPAC meetings in 1988. World trade issues and prospects for the Toronto Economic Summit were discussed at the Banff meeting in June by Ambassador Hidetoshi Ukawa, Consul General of Japan in New York City, and Rimmer de Vries, Senior Vice-President and Chief Economist, Morgan Guaranty Trust Company of New York.

Highlights of the fall meeting in Ottawa included a session on the prospects for the Canadian dollar and a panel discussion on science and technology policy. Russ Robinson, Assistant Deputy Minister, Department of Finance, examined Canada's social policy agenda, while Institute President Maureen Farrow led a discussion on the outlook for the Canadian economy.

The Western Regional Committee (WRC)

In 1988, the WRC hosted Policy Roundtable sessions in Winnipeg, Edmonton, Calgary, and Vancouver. The major event of the year was a joint meeting with HIPAC at Banff in June, featuring a discussion of prospects for western Canadian economic development led by a panel of four business leaders.

Organization of the WRC was enhanced during the year with the appointment of five vice-chairmen representing major western Canadian cities. Marshall Williams, Chairman of TransAlta Utilities Corporation, retired as WRC Chairman and was replaced by Kent Jespersen, President of Foothills Pipeline (Yukon) Ltd. The Institute thanks Mr. Williams for his outstanding contribution.

The Council of Advisors

The Council of Advisors, an important and influential group within the Institute, consists of leading economists from academia, business, and the public sector. It meets once a year with staff to discuss the Institute's plans for research and other programs, and provides a constructive forum for examining research priorities and for probing emerging policy issues.

The Council was expanded significantly in 1988, and its membership now consists of the following.

Chairman

Richard G. Lipsey
Senior Economic Advisor, C.D. Howe Institute

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Chief Economist, Du Pont Canada Inc.

Lloyd C. Atkinson
Senior Vice President and Chief Economist, Bank of Montreal

Peter Bartha
P. Bartha & Associates Inc.

Robin Boadway
Department of Economics, Queen's University

Sandford F. Borins
Faculty of Administrative Studies, York University

Thomas J. Courchene
Department of Economics, Queen's University

Léon Courville
Vice-président exécutif, Affaires générales, Banque Nationale du Canada

Donald J. Daly
York University

David L. Dorenfeld
Imperial Oil Limited

Claude E. Forget
President, The Asbestos Institute

John Grant
Chief Economist, Wood Gundy Limited

Peter Howitt
Department of Economics, Massachusetts Institute of Technology

E.P. Neufeld
Executive Vice-President, The Royal Bank of Canada

Ken Norrie
Department of Economics, University of Alberta

Nancy Olewiler
Department of Economics, Queen's University

James E. Pesando
Professor of Economics and Director, Institute for Policy Analysis, University of Toronto

Caroline Pestieau
Director, Economic Council of Canada

Henri-Paul Rousseau
Vice-président et économiste en chef, Banque Nationale du Canada

Alan M. Rugman
Professor of International Business, Faculty of Management Studies, University of Toronto

A.E. Safarian
Department of Economics, University of Toronto

Brian L. Scarfe
Associate Vice President (Research), University of Alberta

John Whalley
Department of Economics, University of Western Ontario

William R. White
Deputy Governor, Bank of Canada

Tom Wilson
Institute for Policy Analysis, University of Toronto

Ronald J. Wonnacott
Department of Economics, University of Western Ontario

Reaching Out

An integral part of the C.D. Howe Institute's mandate is to communicate its research and views to a wide audience. Publications are produced in a highly readable style, designed to appeal to lay readers and economists alike. As well, the Institute's economic staff participates in an extensive program of public speaking and media interviews.

Institute President Maureen Farrow spoke to dozens of audiences during the year, including the International Business Council of Canada, the Shastri Indo-Canadian Institute, and the Toronto Board of Trade. She also made numerous television and radio appearances and contributed a column to *The Financial Post*.

Not surprisingly, the Canada-U.S. Free Trade Agreement was a focus of much of the Institute's public speaking in 1988. Dr. Richard Lipsey spoke on the Agreement at several universities in Canada and the United States, and addressed, among other platforms, the Atlantic Conference in Philadelphia and the Institute for International Economics in Washington. Dr. Lipsey also delivered the Canadian Economics Association's Innis Memorial Lecture in Windsor and appeared on such television public affairs programs as the CBC's *The Journal* and *Midday*.

Katie Macmillan participated in a number of debates on the free trade issue and addressed various groups on the Agreement's impact on women and on social programs. Robert York spoke to groups in Thunder Bay, Ontario, and Nanaimo, B.C.

Fiscal policy was the subject of several addresses by Ted Carmichael, including presentations to the John Deutsch Institute at Queen's University and a Concordia University conference on the federal deficit. Other major audiences included an international conference on tax reform in Ottawa and a presentation jointly with Maureen Farrow to the Canadian Embassy in Washington on prospects for the Toronto Economic Summit. Mr. Carmichael also devoted considerable time to media interviews during the year, and appeared on a nationally syndicated television program during the federal election campaign to discuss the deficit.

In May, the Institute hosted a luncheon briefing in Toronto to launch three new publications. Over 60 reporters and Institute members attended, which resulted in excellent coverage of the publications in the print and electronic media.

Government Relations

The Institute again placed a high priority on relations with government in 1988, receiving numerous requests for presentations, especially on the issue of bilateral free trade. The Institute's goal in these discussions, as in all its endeavors, is to present nonpartisan views of issues of national importance.

Senior Institute staff appeared before committees of the House of Commons, the Senate, and the Government of Ontario, as well as the International Trade Advisory Council and the Advisory Committee on Adjustment. Staff also traveled to Ottawa to speak to officials of the Bank of Canada, the Departments of Finance, Labour, and Regional Industrial Expansion, the Privy Council Office, and Statistics Canada. In addition, Maureen Farrow and Ted Carmichael undertook a successful trip to Europe to meet officials at the GATT and the Organisation for Economic Co-operation and Development.

Major Staff Speaking Engagements, 1988

Maureen Farrow

January 22: "The Year Ahead: Key Concerns for 1988," Alberta Economic Society, Edmonton

March 3: "Economic Development Issues in the 1990s," Shastri Indo-Canadian Institute, New Delhi

April 11: "The Canadian Economy in the Global World of the 1990s," Aerospace Industries Association, Ottawa

April 19: "New Directions in World Trade and Investment," International Business Council of Canada 1988 Annual Conference, Toronto

May 25: "The Free Trade Agreement: A Canadian Perspective," World Trade Conference, Baltimore

June 17: "Key Summit Issues," Financial Post Conference, Toronto

October 12: "The Canadian Policy Situation," Conference Board of Canada Business Outlook Conference, Toronto

November 15: "The Outlook for 1989," Swiss Canadian Chamber of Commerce, Toronto

December 1: "Economics, Not Politics," Toronto Board of Trade 1989 Forecast Seminar, Toronto

Richard G. Lipsey

February 10: "The Great Canadian Free Trade Debate: How Does It Look from South of the Border?" Florida International University, Miami

March 17: "Why the FTA Is Good for Canada," Osgoode Hall Law School Conference on the Canada-U.S. Free Trade Agreement, Toronto

April 12: "An Agenda for the Present and Future Summits," University of Toronto Conference on Macroeconomic Coordination and the Summit, Toronto

June 2: "Some Unsettled Issues in the Great Free Trade Debate," Canadian Economics Association, Innis Memorial Lecture, Windsor

October 31: "Will, and Should, There Be Further Regional Free Trade Agreements?" Institute for International Economics, Washington, D.C.

Edward A. Carmichael

February 3: "Policy Review and Outlook, 1988," Alberta Wheat Pool, Edmonton

April 18: "Federal-Provincial Issues in Assessing Fiscal Policy," John Deutsch Institute, Kingston

April 28: "Competitiveness: Toward an Appropriate Public Policy," Automotive Parts Manufacturers's Association, Toronto

May 1: "The Mulroney Government and the Deficit," Concordia University, Montreal

May 16: "Tax Reform and Canada's Economic Potential," Tax Executives Institute, Hull, Quebec

Katie Macmillan

February 10: "Agriculture Issues: The Challenge for Canada," Alberta Sugar Beet Growers' Marketing Board, Lethbridge, Alberta

June 19: "Women and Free Trade," Canadian Real Estate Association, Ottawa

Robert C. York

November 4: "The Canada-U.S. Free Trade Agreement and the Northern Ontario Economy," Professional Engineers Association, Thunder Bay, Ontario

December 30: "The Canada-U.S. Free Trade Agreement," Rotary Club of Nanaimo, Nanaimo, B.C.

Maureen Farrow speaking to the Canadian Importers Association in Toronto

Meetings

Through its program of conferences and policy meetings, the Institute offers members, supporters, and staff extensive opportunities to meet with leading policymakers and experts from Canada and abroad. These timely and topical discussions are also of value in developing the Institute's research program.

Nineteen eighty-eight was an especially active year. It began with a two-day conference in January on Business Strategies and Free Trade, cosponsored by the Faculty of Management of the University of Toronto. This successful symposium attracted more than 200 participants.

Among the many outstanding guest speakers were the Hon. Barbara McDougall, Minister of State (Privatization and Regulatory Affairs) and Judith Maxwell, Chairman of the Economic Council of Canada. Grant Reuber, Deputy Chairman of the Bank of Montreal and then-Chairman of the Institute, hosted a session on the new trade environment, while former Institute Chairman Michel Bélanger, President and Chief Executive Officer of the National Bank of Canada, headed a session on "Living with Free Trade". The proceedings of the conference were published under the title *Business Strategies and Free Trade: Focus on Corporate Adjustment*.

In April, the Institute introduced a new program of Policy Dinners. These provide senior business executives and government officials with an opportunity to meet in a thoughtful forum with international policy experts. The first dinner, a briefing in Ottawa by Robert Z. Lawrence, Senior Fellow at the Brookings Institution in Washington, was extremely well-received. It was followed by a dinner in Toronto in June featuring Toyoo Gyohten, Japanese Vice-Minister of Finance.

In 1989, this successful program will be expanded to Montreal.

The Institute once again hosted its popular series of monthly Policy Roundtables, which bring together Institute members and staff with leading economists and policymakers for discussions of major policy issues. Among the guest speakers in 1988 were Dr. Sherry Atkinson, of Burns Fry Limited, who spoke on monetary policy in Canada and the United States, and Thomas Kierans, of ScotiaMcLeod Inc., who addressed the topic of energy policy in the twenty-first century. Prospects for Canadian economic policy in the 1990s was the subject of a briefing by former Institute President Carl Beigie, of McLean, McCarthy Limited. Barry Davenport, of the Bank of Montreal, examined the prospects for the Canadian dollar.

Economic Council of Canada Chairman Judith Maxwell addressing a Policy Roundtable session

The Program for 1989

Nineteen eighty-nine is shaping up to be another pivotal year for Canadian policymakers. Once again, the challenge is to develop appropriate domestic and international policy responses to ensure that Canada gains a sound foothold in the global economy of the 1990s.

The year promises to be another busy one for Institute staff as well.

In 1989, the Institute's research program will focus on two major areas, fiscal and monetary policy, and international trade, both of which are addressed in *Ottawa's Next Agenda*, Policy Review and Outlook, 1989.

The need to strike the right balance between fiscal and monetary policy, in order to ensure Canada's continued economic prosperity and growth, will again be a central theme of the research program. This theme will be further developed in a new series, *Fiscal Monitor*, which the Institute is launching this year. The new series is part of the Institute's continuing effort to foster a broader public understanding of this important issue.

An often-neglected area of related concern is the deteriorating financial position of the provinces, which an Institute study entitled *Provincial Finances* will address.

The Institute's 1989 program of research on international trade issues will focus on three key areas: adjustment to the Canada-U.S. Free Trade Agreement, the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade, and economic relations among the Pacific Rim countries.

The successful *Trade Monitor* series will be the main vehicle by which the Institute will communicate its research in these areas. In the summer, the Institute will also release *Tomorrow the Pacific*, a study on the Pacific Rim by H. Edward English.

Other important studies will include an examination of world agriculture by J.C. Gilson, a comparative analysis of the cultures of Canada and the United States by Seymour Martin Lipset, and an investigation of the role of national savings in global imbalances by Institute Senior Fellow Thomas J. Courchene.

The Institute will also embark on three major new projects. The first is a study on the goal of price stability, to be led by Richard G. Lipsey, with contributions from Douglas D. Purvis, Peter Howitt, and David Laidler. The second is an examination by Institute staff of the public policy issues raised by Canada's changing demographic profile. The third is a staff study of interprovincial trade barriers in the context of Canada-U.S. free trade.

The Institute's committees have another active year ahead. The British-North American Committee will be meeting in London, England, and in Montreal. Members of the Canadian-American Committee will travel to Boston and Quebec City. The C.D. Howe Institute Policy Analysis Committee will also meet in Quebec City, as well as in Ottawa as usual. The Western Regional Committee held a most successful meeting in Vancouver in early February. Finally, Policy Dinners will take place in Ottawa, Toronto, and Montreal.

Staff will continue to develop the Institute's program of high-quality research on relevant public policy issues, and to communicate the results of its research to Canadians in a timely and readable manner.

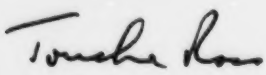
Auditors' Report

The Members,
C.D. Howe Institute

We have examined the balance sheet of the C.D. Howe Institute as at December 31, 1988, and the statement of income, expenses, and accumulated revenue for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

The Institute derives most of its income from contributions which by their nature are not susceptible to audit verification. Accordingly, our verification of revenue from this source was limited to amounts recorded in the books of the Institute.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves with respect to the completeness of contributions referred to in the previous paragraph, these financial statements present fairly the financial position of the Institute as at December 31, 1988, and the results of its operations and changes in its financial position for the year then ended in accordance with accounting policies as described in Note 1 of the financial statements, applied on a basis consistent with the preceding year.



Touche Ross & Co. Chartered Accountants
Toronto, Ontario, January 9, 1989

Financial Statements

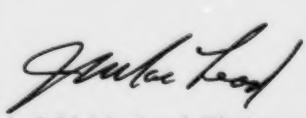
C.D. Howe Institute

(Incorporated under Part II of the Canada Business Corporations Act)

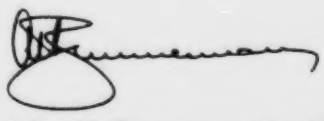
Balance Sheet as at December 31, 1988

Assets	*1988*	1987
Current		
Cash	*$ 1,388*	$ 982
Deposits at interest (Note 2)	*123,796*	167,399
Marketable securities — at cost (Note 3)	*294,333*	197,696
Accounts receivable	*40,094*	76,492
Prepaid expenses	*4,806*	2,443
	464,417	445,012
Fixed		
Furniture and fixtures	*161,135*	132,616
Less accumulated depreciation	*83,950*	77,227
	77,185	55,389
	$541,602	$500,401
Liabilities		
Current		
Accounts payable and accrued liabilities	*113,795*	104,706
Unearned revenue	*12,768*	60,363
	126,563	165,069
Capital, Accumulated Revenue, and Reserve		
Capital	*212,898*	212,898
Accumulated revenue	*113,909*	75,202
	326,807	288,100
Reserve for repairs (Note 5)	*77,232*	47,232
Reserve for bequest and endowment fund (Note 6)	*11,000*	—
	415,039	335,332
	$541,602	$500,401

Approved on behalf of the Board



Jack M. MacLeod, Chairman



Adam H. Zimmerman, Vice-Chairman

See accompanying notes to financial statements

Statement of Income, Expenses, and Accumulated Revenue for the Year Ended December 31, 1988

	1988	1987
Income		
Members' contributions	*$ 982,175*	$ 826,367
Sales of publications	*67,369*	46,785
Contract revenue	*43,266*	101,411
C.D. Howe Memorial Foundation grant	*150,000*	151,042
Other income	*215,270*	110,882
	1,458,080	1,236,487
Total expenses	*1,379,373*	1,198,981
Allocation for reserve for repairs	*30,000*	27,232
Allocation for reserve for bequest and endowment fund	*10,000*	—
	1,419,373	1,226,213
Excess of income over expenses and allocation	*38,707*	10,274
Accumulated revenue, beginning of year	*75,202*	64,928
Accumulated revenue, end of year	*$ 113,909*	$ 75,202

See accompanying notes to financial statements

Notes to Financial Statements, December 31, 1988

1. Summary of significant accounting policies
   a. The financial statements of the Institute have been prepared on the accrual basis of accounting, except for contributions which are recorded as received.
   b. Monies received on account of specific future contracts are recorded as unearned revenue when received, and are taken into income in the period in which the related expenses are incurred.
   c. Fixed asset additions are recorded at cost. Depreciation is calculated using the straight-line basis at 33 1/3% per annum for computer equipment and 10% per annum for all other fixed assets.
   d. Publications are not recorded as inventory, and all costs associated withtheir production are expensed as incurred.
2. Deposits at interest
   Cash is maintained in a treasury account requiring a minimum balance of $100,000 and receiving interest at the bank prime rate less 3%.
3. Marketable securities

	1988	1987
Treasury bills		
Canadian	*$ 29,465*	$ 99,062
Province of British Columbia	*68,203*	—
Promissory notes		
Province of British Columbia	—	98,634
Banker's acceptance		
Toronto Dominion Bank	*97,619*	—
Royal Bank of Canada	*99,046*	—
	$294,333	$197,696

4. Commitments
   Future minimum operating lease commitments for office space are approximately $25,000 per annum for the years 1989 through 1993, and $300,000 thereafter, for a total of $425,000. Annual payments after 1989 will exceed $25,000 by a percentage of any increase in the Consumer Price Index at that date.
5. Reserve for repairs

	1988	1987
Balance at beginning of year	*$47,232*	$20,000
Allocation for year	*30,000*	27,232
Balance at end of year	*$77,232*	$47,232

6. Reserve for bequest and endowment fund
   During 1988, the Institute began a program to accumulate a capital fund comprised of gifts and bequests from the public. These contributions can be either restricted to a particular purpose or unrestricted in their use.

	1988	1987
Contributions received during the year	*$ 1,000*	—
Allocation for the year	*10,000*	—
Balance at end of year	*$11,000*	—

*Members of the C.D. Howe Institute**

Abitibi-Price Inc.
Aetna Canada
Agropur, Coopérative Agro-Alimentaire
Air Canada
Alberta Government Telephones
Alberta Natural Gas Company Ltd.
The Alberta Stock Exchange
Alcan Aluminium Limited
Amoco Canada Petroleum Company Ltd.
Atomic Energy of Canada Limited
Ayre & Sons, Limited
BC Sugar Refinery, Limited
BCE Inc.
BP Canada Inc.
Robert A. Bandeen
Bank of Montreal
The Bank of Nova Scotia
Banque fédérale de développement
Banque Laurentienne du Canada
Banque Nationale du Canada
Barclays Bank of Canada
Giovanni Bastreri
Bata Limited
Baton Broadcasting Incorporated
Bell Canada
Roy Bennett
Beutel, Goodman Company Ltd.
R.W. Billingsley
The Birks Family Foundation
Boeing Canada, de Havilland Division
Bombardier Inc.
Gerald K. Bouey
Donald J. Boyar, Q.C.
Bramalea Limited
Brascan Limited
Albert Breton
Budd Canada Inc.
Burns Fry Limited
CAE Industries Ltd.
The CSL Group Inc.
Gordon R.W. Campbell
Campbell Soup Company Ltd.
Canada Colors and Chemicals Limited
The Canada Life Assurance Company
Canada Packers Inc.
Canada Trust
Canadian Bankers' Association
Canadian Corporate Funding Ltd.
Canadian Federation of Agriculture
Canadian Federation of Independent Business
Canadian Hunter Exploration Ltd.
Canadian Imperial Bank of Commerce
Canadian Labour Market and Productivity Centre
Canadian Manufacturers' Association
Canadian National
Canadian Pacific Limited
Canadian Pulp & Paper Association
Canadian Tire Corporation, Limited
Canterra Energy Ltd.
Cargill Limited
Cavendish Investing Ltd.
The Chase Manhattan Bank of Canada
Chemical Bank of Canada
Ciba-Geigy Canada Ltd.
Citibank Canada
Kenneth H.J. Clarke
Clarkson Gordon
Commercial Financial Corporation Limited
Confederation Life Insurance Company
Consolidated-Bathurst Inc.
Consumers Gas
Continental Can Canada Inc.
Coopers & Lybrand
Glen H. Copplestone
Corporation du Groupe La Laurentienne
Coscan Development Corporation
Co-Steel Inc.
Pierre Côté
J.G. Crean
Crédit Lyonnais
CrestbrookForest Industries Ltd.
John Crispo
Hugh A. Curtis
Cyanamid Canada Inc.
Shirley Dawe
Deloitte Haskins & Sells
Desjardins, Ducharme, Desjardins & Bourque
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Digital Equipment of Canada Limited
Dofasco Inc.
Dome Petroleum Limited
The Dominion of Canada General Insurance Company
Dominion Textile Inc.
Domtar Inc.
Dow Chemical Canada Inc.
Du Pont Canada Inc.
Edper Investments
Eldorado Resources Limited
The Empire Life Insurance Company
Energy & Chemical Workers Union
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Formula Growth Limited
Four Seasons Hotels Limited
Donald T. Fudge
Gaz Métropolitain, Inc.
General Electric Canada Inc.
General Motors of Canada Limited
The Great-West Life Assurance Company
Morton Gross
Le Groupe Commerce, compagnie d'assurances
Groupe Sobeco Inc.
Groupe Transcontinental G.T.C. Ltée.
Guaranty Trust Company of Canada
Gulf Canada Resources Limited
H. Anthony Hampson
C. Malim Harding
Hawker Siddeley Canada Inc.
J.-P. Hétu
Hewlett-Packard (Canada) Ltd.
Honeywell Limited
Hongkong Bank of Canada
Howe International
Hydro-Québec
IBM Canada Ltd.
Imasco Limited
The Imperial Life Assurance Company of Canada
Imperial Oil Limited
Inco Limited
Inland Cement Limited
Inter-City Gas Corporation
International Brotherhood of Electrical Workers
Interhome Energy Inc.

**The views expressed in this publication do not necessarily reflect the opinions of the members of the Institute.*

*Members of the C.D. Howe Institute**

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Jarislowsky, Fraser & Company
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Lac Minerals Ltd.
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The Molson Companies Limited
Montréal Trust Company of Canada
Morgan Stanley Canada
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National Trust Company
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Portfolio Management Corporation
Power Corporation of Canada
Prairie Pools Inc.
Price Waterhouse & Co.
Procor Limited
ProGas Limited
Provigo Inc.
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Quebec and Ontario Paper Company Limited
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